Canada

Registered Charities Newsletter

No. 3 - Winter 1992-1993

For information on the income tax issues discussed below or if you have other comments, call us at (613) 954-0410 for local Ottawa calls, at 1-800-267-2384 for toll-free long distance, or write to us at the:

Charities Division
Revenue Canada
400 Cumberland Street
Ottawa, Ontario, K1A 0L8

TAXATION WORKING WITH CUSTOMS AND EXCISE

Traditionally, charities have had to deal with two separate departments: Revenue Canada, Taxation for income tax matters, and Revenue Canada, Customs and Excise, particularly for the goods and services tax (GST). Efforts are now under way to integrate program delivery with the objective of providing clients with more accessible, faster and streamlined service. This newsletter reflects the intent by providing information of relevance on both income tax and excise tax matters. We welcome your suggestions - please write to us.

FEDERAL EXCISE GASOLINE TAX REFUND PROGRAM

Effective January 1, 1993, the Federal Excise Gasoline Tax Refund Program has been extended indefinitely for specific users, including registered charities. Your charity can apply for a refund of federal excise tax on gasoline by using the new application form in the enclosed revised pamphlet.

Ensure that you use your charity's payroll deduction number from the Taxation component of the Department, or its Excise identification number, each time you apply for the refund. If your charity needs an Excise identification number, you can contact your local Excise/GST office. See the back cover of the enclosed pamphlet for the telephone number and address.

Also, if you have any questions about the GST or other excise taxes you can call or write your local Excise/GST office. If you are unsure where to direct a particular enquiry you can contact us at the Charities Division and we will gladly direct your enquiry to the appropriate office.

GIFTS OF PROPERTY OTHER THAN CASH

How does a charity establish the value of a gift of property other than cash, when it issues an official donation receipt?

We usually refer to a gift of property other than cash as a "gift-in-kind." To establish the value of a gift-in-kind, for example a rare book or antique furniture, you have to get an estimate of the fair market value of the item on the date it was given. The generally accepted meaning of *fair market value* is the highest price that the property would bring in an open and unrestricted market between a willing buyer and a willing seller who are both knowledgeable, informed and prudent, and who are

acting independently of each other.

An appraiser who did not or does not have a material interest in the property being given and is not associated with the donor or with the charity can value the gift. Dealers and other individuals whose work makes them knowledgeable about the market value of the item given can appraise it. If the gift is likely to be valued at $1000 or less, the charity may prefer to have one of its qualified staff members evaluate the gift.

An artist can set the value of a gift from his or her inventory at any amount between the gift's cost to the artist and its fair market value provided that the fair market value of the gift is greater than its cost. The artist has to include this chosen amount in income and can use the same amount to determine the tax credit available. However, the charity has to record the gift's fair market value on the receipt.

A charity can issue an official donation receipt to a business for the fair market value of a gift out of inventory. Examples include a gift of bread from a bakery, or an item from the inventory of a dealer who buys and sells art, antiques, rare books, or other cultural property. Where a business donates goods out of its inventory to a charity, it has automatically received a deduction from income through its cost of goods sold. To claim a charitable tax credit or deduction, the business also has to include as income an amount equivalent to the gift's fair market value.

Where a business donates to a charity and receives a material advantage, such as promotion or advertising, the charity cannot issue an official donation receipt as the donation is not a gift at law. For taxation purposes, the business can use the cost of the donation as an advertising expense.

Items of little value, such as hobby crafts or home baking, will not qualify as a gift-in-kind for purposes of issuing an official donation receipt.

When you prepare a donation receipt for a gift-in-kind, remember to include the date on which you receive the donation, a brief description of the item given, and the name and address of the appraiser if you had the item appraised.

We are currently revising our pamphlet entitled *Gifts-in-Kind*, and it will be available shortly in a new clearer format.

REGISTERED NATIONAL ARTS SERVICE ORGANIZATIONS

Contrary to what we said in the spring 1992 newsletter, registered national arts service organizations *are* "qualified donees" as described in the *Income Tax Act*. This means that registered charities **can** give funds to such organizations. We regret any inconvenience this may have caused.

These newsletters form part of a series. Keep them for future reference within your organization.

Date Modified: 1995-01-01